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Bid to Enter Trade Talks Marks New Phase in 'Abenomics'

By YUKA HAYASHI

TOKYO—Prime Minister Shinzo Abe plans to announce on Friday Japan's intention to join negotiations for an ambitious trans-Pacific free-trade pact, a move that launches the final—and possibly most important—phase of his economic agenda: long-term growth strategies.

The step will mark the beginning of a hard battle that will require Mr. Abe to take on his own political base, testing the resilience of his administration.



Emboldened by sky-high approval ratings and the initial success of his economic stimulus plan, Mr. Abe is expected to announce Japan's participation in the talks to form the Trans-Pacific Partnership, known as TPP.

Whether to join the emerging U.S.-led pact has been a contentious issue, pitting farmers and their representatives, worried about market-opening measures, against

manufacturers and city dwellers, hoping for a fresh jolt to the economy to end a decadeslong slump. Highlighting such tensions in Mr. Abe's own Liberal Democratic Party, two members were caught on camera having a screaming match at one recent meeting held to discuss the pact.

"I think it is meaningful for Japan to play a leading role in creating such a free-trade zone, and make significant contributions to the region's prosperity and stability in a geopolitical sense as well," Mr. Abe said in a speech to parliament on Feb. 28.

The TPP is an important element in Mr. Abe's long-term growth strategy, which, in turn, is one of the "three arrows" that make up his policy package, dubbed Abenomics. Shortly after he took power in December, he successfully launched the first two arrows—aggressive monetary easing and massive stimulus spending—creating excitement in financial markets. The Nikkei Stock Average has soared 27% since his party won a mid-December landslide election, while the yen has weakened 15%.



"I will forcefully shoot the three arrows," Mr. Abe said in the late-February policy speech. "What we need is the will to climb up to the top of the world. I am convinced Japan can still grow."

Mr. Abe said his growth policies aim to sharpen the competitive edge of Japanese corporations, and focus on areas such as employment reform, clean energy, medical care and agricultural exports. He has appointed panels of experts and given them the task of crafting a full growth blueprint by midyear.

Critics of Abenomics say that except for the TPP, Mr. Abe's ideas aren't so different from those tried by his predecessors, with limited or no success. Even then, Japan's admission to the trade group isn't guaranteed. Mr. Abe must secure consent from participants in the talks, such as the U.S. and Australia, which have raised concerns about Japan's protectionist agricultural policy.

"We have put together seven growth strategies in the past seven years, and each time, we made a lot of effort to write them," said Heizo Takenaka, an economist on one of Mr. Abe's panels and the architect of former Prime Minister Junichiro Koizumi's economic policies in the early 2000s. Those plans spurred a similar optimism at the time—ultimately short-lived—about prospects for a Japanese rebound.

"This time, we must deliver something that goes well beyond, into a new realm," Mr. Takenaka added at a recent panel meeting.

The ideas floated by the government, for example, so far don't include the drastic steps needed to address the most dire of Japan's economic challenges: boosting the population of educated and well-trained young workers to reverse a decline in the labor force. Experts, including economists for the International Monetary Fund who looked at Japan's growth challenges last year, have called for the need to increase female labor participation and immigration.

So far, market rallies so far have been driven by expectations that the economy may be turning the corner, not by strong improvements in the economy's performance. Japan's jobless rate has remained around 4.2%, little changed since June 2012, and the economy grew by an annualized pace of just 0.2% in the October-December quarter, after shrinking the previous two quarters.

"There is a limit to how far you can go to fix the economy when you are relying so heavily on monetary policy," said Toshihiro Ihori, a University of Tokyo economist, who remains "a little skeptical" of the efficacy of Abenomics.

Economists say the central bank can be pressured to ease monetary policy to battle deflation, but growth can't be sustained unless a virtuous cycle of business improvements, higher wages, and more consumption is established. Real recovery in corporate performance—and tax revenues—is essential, as Mr. Abe's aggressive fiscal spending adds to Japan's government debt load—already the heaviest in the developed world.

Joining the TPP is a chance Japan can't afford to miss, the economists say. It offers better access to the growing economies of Asia and allows Japan to compete in the U.S. market with other free-trade partners. President [Barack Obama](#) also announced recently a plan to negotiate a free-trade deal with Europe.

Tokyo and Washington see the TPP as a tool to cement ties with regional allies, and balance the rise in China's economic and military clout.

Mr. Abe's TPP announcement, made well before national elections in July, surprised many. He used his recent meeting with Mr. Obama to issue a joint statement saying a "prior commitment to unilaterally eliminate all tariffs" isn't a requirement for joining the TPP talks. That made it easier for Mr. Abe to push the plan through his own ruling LDP, where many lawmakers fear pressure to eliminate tariffs would anger farmers, a powerful political base.

Mr. Abe has several reasons to join the TPP talks now: the earlier Japan joins, the more room it has to influence the negotiations that could be completed as soon as year-end. He also needs to maintain the momentum for Abenomics until the July elections, which will affect his grip on power.

Many hurdles remain for Japan's TPP participation. Japan may join the talks, but once in, must face pressure to open its markets. Japan's existing trade pacts exclude hundreds of items, mostly in agriculture. Its tariffs are 778% for rice and 39% for beef. These impediments would unlikely be tolerated by TPP partners. The U.S. auto lobby, an important backer of Mr. Obama, also is expected to press Japan for concessions, including steps to deregulate its lucrative minicar market. The American auto industry has only a tiny share of Japan's car market, despite repeated rounds of trade negotiations aimed at making it more accessible.

"There are industries, corporations and groups that have been protected and nurtured by existing systems and regulation," said Sakie Akiyama, chief executive of Saki Co., a leading industrial-robot company, and a member of Mr. Abe's deregulation panel. "They have opposed regulatory reforms needed to bring us up-to-date. We have had so much difficulty breaking this wall."

Write to Yuka Hayashi at yuka.hayashi@wsj.com

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